Financial *focus*

R.C.Whitmore ADVISORS

A plan for tomorrow means peace of mind for today

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In This Issue

Considering Charity

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Why Give to Charity?

First of all, it's good for you. Giving to others is shown to improve emotional wellness. It improves your mood, it builds social capital, it makes you more satisfied that you've built a legacy. Whatever the size, your gift helps make the world a better place and helps you to feel the sense of abundance that comes from sharing with others.

I recommend concentrating your gifts to a few charities that you care deeply about. I like to use Razoo (a crowdfunding website for charitable giving) to find local charities I wouldn't otherwise have known about, or to help with matching grants, or just for fun – a shopping spree for charity. It's great to involve the kids as well. Offer to match their contributions, and you can get the tax deduction!

Contribute to charities that aren't widely known. What do you wish to fix in the world? Use Charity Navigator's advance search tool to find the charities that are so busy using their time to do the work you want done that they don't have time to market.

Do you intend to continue gifting to charities into old age? By funding a Donor Advised Fund, you can set aside money for charity now, taking the tax deduction while still in your high tax bracket, earning years, to donate later in life. You can set up a fund with Fidelity with as little as $5,000. Your money grows untaxed until you donate it to a charity you wish to support.

Did you know that if you are over 70 and have Required Minimum Distributions from IRAs, you can direct the IRA custodian to make a contribution directly to your charity? It doesn't show up on your taxes as taxable income or as a deduction. It's a cool way to get an "above the line" deduction for gifting!

A few other special loopholes around charity:

- There's a special deduction if your business donates unsold food.
- Massachusetts has a special 50% tax credit match for gifts of $1000 or more to Community Development Corporation.
- There are opportunities for charitable deductions and tax credits for fully or partially donating conservation easements.

There are a variety of tax efficient strategies associated with gifting appreciated assets to charities. By gifting the low-cost-basis IBM stock your grandfather gave you to charity you get the deduction for the fair market value without having to recognize a gain from selling the stock. Alternatively, you can donate the stock to charity now, but arrange to collect the income it generates over your lifetime. For more complex assets, such as closely-held businesses, you can use the American Endowment Foundation. Please consult your tax advisor for more detailed information on these strategies.

No matter how small, you need to save documentation for all charitable contributions. A cancelled check will work, as will an emailed confirmation. If the contribution is over $250 you must also have a letter from the charity affirming that no goods or services were received in exchange for this gift.

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The Gratification of Organization

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We moved our office recently to a larger location. Putting the finishing touches on a new space that we designed was the fun part. The hard part was the preparation. Sorting, deciding what to keep, what to upgrade, packing, transporting, unpacking, and arranging files was a daunting task.

So too is the task of organizing our financial lives. Though not always pleasant, it is important to create a system to organize and retain your important financial, estate, insurance and other legal documents. Some things to keep in mind when going through your files:

- Your tax returns should be kept for seven years, longer if they relate to an existing business, installment sale, some active trusts, carry forward losses, etc.
- Your current insurance policies, mortgage documents, and latest wills and trusts should be secured with at least one beneficiary or attorney knowing how to access them.
- Your online passwords should be secured with access available to those who will need this information someday.

Many of our clients have a home safe or a safety deposit box for important papers. We provide new clients with a home organizer and encourage physical filing of the most important papers that may need accessing quickly. We recommend an Everplan (everplans.com), an online secure, digital archive, for those clients who are comfortable with online storage of both documents and passwords.

It is a good idea to "clean house" every now and then. When going through your personal "stuff", recognize that deciding what to keep and what to toss is often difficult, tangled up as it is with sentiment and memories. It's often difficult to determine the difference between cherished personal property, collections, memorabilia, comfort possessions - and junk!

There is something quite gratifying about getting rid of old DVDs and VHS tapes, purging your closets of clothes not worn for several seasons or that no longer fit, cleaning out drawers and giving away toys no longer used or needed. There is strong evidence that decluttering lowers tension, refocuses your mind, brings peace, and restores a sense of order and rejuvenation.

So, as we approach 2017, consider carving out some time for simplifying and organizing as you put together your New Year's resolutions.

Considering Charity (cont.)

Are you working on behalf of a not-for-profit group? You receive a small deduction for out-of-pocket-expenses and miles you drive for charities. (Sorry, there's no deduction for the value of your labor.) Cleaning out household goods? The book "Deduct It! Deduct It!" has updated thrift store prices for these items. A great way to get a tax deduction!

After reading through this list, I hope you'll agree that there are many reasons, emotional as well as financial, to maximize your charitable giving throughout the year.

Black Swans

By Mike Ryan, CFP®, MBA
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Have you ever seen a black swan? No? Well neither had anyone in Europe during the 17th century. At that time, it was widely believed that there could be no such thing as a "black" swan. Having seen only white ones, Europeans naturally assumed that white was the only color that a swan could be. They learned otherwise in the late 17th century when William de Vlamingh, a Dutch explorer, discovered black swans in the wilds of western Australia. It was a shock to many to learn that black swans, which they had long thought impossible, actually existed.

Fast forward to the early 2000s in America where we meet a gentleman named Nassim Nicholas Taleb. Taleb was a finance professor, Wall Street trader, and writer who wrote *Fooled by Randomness – The Hidden Role of Chance in Life and in the Markets*. In his 2001 book, he applied the history of the black swan to more recent random events. Following the mortgage debacle and subsequent market meltdown of 2008-2009, he further refined his black swan theory in another book, *The Black Swan: The Impact of the Highly Improbable*. After further evolution, a "Black Swan" event is now used to describe the occurrence of any significant event which had previously been thought impossible.

According to Taleb, a Black Swan event has three defining characteristics:

1. The event had been thought highly unlikely and is a major surprise.
2. The event has a major effect.
3. After the event, it is rationalized in hindsight as if it could have been expected. "We should have seen that coming!"

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Being a Financial Caregiver for Your Parents

Introduction by Steve Martin*, CFP®, CPA, JD
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One of the most important conversations you can have with your aging parents is how to handle their finances as they age, become ill or incapacitated. If you are the adult child of aging parents, you may find yourself in the position of someday having to assist them with handling their finances. Whether that time is in the near future or sometime further down the road, there are some steps you can take now to make the process a bit easier.

Mom and Dad, can we talk?

Your first step should be to get a handle on your parents' finances so you fully understand their current situation. The best time to do this is when your parents are relatively healthy and active. Otherwise, you may find yourself making critical decisions on their behalf during a crisis.

You can start by asking them some basic questions:

- What financial institutions hold their assets (e.g., bank, brokerage, and retirement accounts)?
- Do they work with any financial, legal, or tax advisors? If so, how often do they meet with them?
- Do they need help paying monthly bills or assistance reviewing items like credit card statements, medical receipts, or property tax bills?

Make sure your parents have the necessary legal documents.

You'll need the legal authority to help your parents manage their finances. This requires a durable power of attorney, a legal document that allows a named individual (such as an adult child) to manage all aspects of a person's financial life if he or she becomes disabled or incompetent. A durable power of attorney will allow you to handle day-to-day finances for your parents, such as signing checks, paying bills, and making financial decisions for them. This document is not one-size-fits all, so you should periodically confirm that it still meets your parents' needs.

You'll also want to make sure that your parents have an advance healthcare directive, also known as a healthcare power of attorney or healthcare proxy. An advance healthcare directive will allow you to make medical decisions according to their wishes (e.g., life-support measures and who will communicate with healthcare professionals on their behalf).

Find out if your parents have a will or any trusts. If so, find out where these documents are located and who is named as personal representative or executor. If the will was drafted more than three to five years ago, or if there was a major change to their situation, your parents may want to review it to make sure their current wishes are represented. You should also ask if they made any dispositions or gifts of specific personal property (e.g., a family heirloom to be given to a specific individual).

If there is a trust, you should confirm the type (revocable or irrevocable) and whether the trust holds any assets. One of the primary reasons a revocable trust is drafted is to provide for a smooth transition of handling one's financial affairs. Thus, it is critical to review the trustee provisions – not only who is named as initial trustee and successor trustee, but how the successor trustee takes over. There are a host of issues that should be addressed with trusts that are beyond the scope of this article.

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Black Swans (cont.)

The terrorist attack of 2001 is a perfect example of a Black Swan event, but not all Black Swan events are catastrophic and harmful. The development of the internet and widespread use of personal computers can also be viewed as Black Swan events. The Japanese earthquake and the subsequent nuclear reactor problem, the dissolution of the Soviet Union, and the Arab Spring are other Black Swan events. In short, any occurrence previously thought impossible but which does occur and has a major impact can be seen as a Black Swan.

The financial world now takes for granted that Black Swan events will occur from time to time. Can we prepare for them? Of course, if we could completely prepare for them, they would not be Black Swans! But, we can arrange our affairs as if we expect them to occur. We know that Black Swans will visit from time to time and we can note our vulnerabilities. We then may take measures to lessen the unpleasant effects of unexpected events. For our personal finances, that means having an emergency fund in place, and ensuring that our portfolios are well diversified. The tech stock bubble and crash of 2000 was a Black Swan for those who had piled on speculative tech stocks. It also thoroughly highlighted the risk of not being properly diversified. Proper diversification has historically lessened the effect of Black Swans compared to making big bets on single stocks or on just one asset type (think real estate in 2008).

Black Swan theory is fascinating to me. I have noticed that more commentators in the financial arena have recently been using the term (and not in the ornithological sense). They likely have no better idea of when the next one may appear, or what form it may take, than do you or I. I won't lose sleep over Black Swans, but I will also try to make sure that I am not caught completely off guard. So, be alert for Black Swans as you face your future; you will likely see one sometime, somewhere. And, with the help of your ACP financial advisor, take the steps needed to be as prepared as you can.

Being a Financial Caregiver for Your Parents (cont.)

Prepare a personal data record.

Once you've opened the lines of communication, your next step is to prepare a personal data record that lists information you might need if your parents become incapacitated or die. Here's some information that should be included:

- Financial information: Bank, brokerage, and retirement accounts (including account numbers and online user names and passwords, if applicable); real estate holdings
- Legal information: Wills, trusts, durable powers of attorney, advance health-care directives (and the details behind such)
- Medical information: Healthcare providers, medication, medical history
- Insurance information: Policy numbers, company names
- Advisor information: Names and phone numbers of any professional service providers
- Location of other important records: Social Security cards, home and vehicle records, outstanding loan documents, past tax returns
- Funeral and burial plans: Prepayment information, final wishes

If your parents keep some or all of these items in a safe deposit box or home safe, make sure you can gain access. It's also a good idea to make copies of all the documents you've gathered and keep them in a safe place. This is especially important if you live far away, because you'll want the information readily available in the event of an emergency.

Don't be afraid to get support and ask for advice.
If you're feeling overwhelmed with the task of handling your parents' finances, don't be afraid to seek out support and advice. A variety of local and national organizations are designed to assist caregivers. If your parents' needs are significant enough, you may want to consider hiring a geriatric care manager who can help you oversee your parents' care and direct you to the right community resources. Finally, consider discussing the specifics of your situation with a professional, such as an estate planning attorney, accountant, and/or financial planner.

**This article was modified by Steve Martin, Oasis Wealth Planning Advisors with initial preparation by Broadridge Investor Communication Solutions, Inc. Copyright 2016.*